

June 19, 2017

## Sri Venkateswara Aqua Culture

### Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Cash Credit	12.00	[ICRA]B+ (Stable); Reaffirmed
<b>Total</b>	<b>12.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating at [ICRA]B+ (pronounced ICRA B plus)<sup>1</sup> to the Rs. 12.00-crore<sup>2</sup> cash credit limit of Sri Venkateswara Aqua Culture (SVAC). The outlook on the long-term rating is 'Stable'.

### Rationale

The rating is constrained by the firm's low profitability levels on account of trading nature of operations, weak coverage indicators, and working capital intensive nature of the business owing to high debtor days as majority of the sales are made to farmers who pay after the harvesting of shrimps, which takes around 120-130 days. The rating also remains constrained by the modest scale of operations of the firm coupled with intense competition from unorganized players owing to low entry barriers and risks inherent to partnership nature of the business. Moreover, the demand for shrimp feed is exposed to inherent risks in the seafood industry, including susceptibility to diseases, government policies, and climate change risks.

The rating, however, positively factors in the significant experience of the promoters of more than two decades in the aqua feed industry, along with logistic advantages with the firm's facilities being located in proximity to the major aquaculture belt of Andhra Pradesh. The rating also favourably factors in the firm's longstanding relationship with its suppliers ensuring continuous supply of feed for trading and low customer concentration risk with firm supplying the feed to large number of farmers located in the aquaculture belt.

Going forward, the firm's ability to improve its revenues and operating margins, while managing its working capital requirements, will be the key credit rating sensitivities.

### Key rating drivers

#### Credit strengths

- Favorable demand with Andhra Pradesh, being key shrimp farming hub
- Vast experience of the promoters in the aqua feed business

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> 100 lakh = 1 crore = 10 million

**Credit weaknesses**

- Low profitability inherent in trading nature of business
- Highly fragmented aqua feed industry with low entry barriers, and intense competition from unorganized players
- Inherent risks in aqua feed industry like susceptibility to diseases, climate change risks and government policies
- Exposure to wide fluctuations in the key raw material prices (fishmeal, soya and maize) likely to affect operating margins
- Risks inherent to partnership nature of the business

**Description of key rating drivers:**

Sri Venkateswara Aqua Culture is engaged in cultivating shrimps of Vannamei and Tiger species and also involved in trading of shrimp feed manufactured by CP Aqua Culture Private Limited (CPACPL) under the well established brand name “Star Feed”. The firm is promoted by Mr. S. Krishna Reddy who has an experience of more than two decades in the aqua feeds industry. The firm primarily sells feed to farmers in the East Godavari district, who are involved in shrimp culture. The aqua feeds industry remains highly fragmented with low entry barriers giving rise to intense competition from unorganized players. Also, the industry is highly susceptible and exposed to inherent risks such as outbreak of diseases, climate change risks and change in government policies.

The operating income of the firm grew by ~5% to Rs. 46.68 crore in FY2017. The operating margin of the firm improved from 1.73% in FY 2016 to 2.33% in FY 2017 owing to increased margins. Despite higher operating margins, the net profit margin remained at similar level as last year at 0.50% for FY2017 owing to higher interest expenses. The firm’s financial profile remains weak with high gearing of 1.54 times as on March 31, 2017 and weak coverage indicators with interest coverage ratio at 1.30 times as on March 31, 2017.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:****Corporate Credit Rating Methodology****About the company:**

Founded in 2000 as a partnership firm, Sri Venkateswara Aqua Culture (SVAC) is engaged in trading shrimp feed from CP Aqua Culture Private Limited (CPACPL) in Andhra Pradesh; and in the shrimp culture of Vannamei and Black Tiger species. The registered office is located at Penuguduru village of East Godavari district in Andhra Pradesh. The firm’s operations are overseen by the managing partner, Mr. S. Krishna Reddy, who has been involved in the aqua feed industry for more than two decades. The firm operates several branches within the East Godavari district of Andhra Pradesh.

In FY2017, as per provisional numbers, the company made net profit of Rs. 0.23 crore on an operating income of Rs. 46.68 crore, compared to a net profit of Rs. 0.22 crore on an operating income of Rs. 44.25 crore in FY2016.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:**
**Table:**

S. No.	Instrument	Current Rating (FY 2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				<b>June 2017</b>	<b>August 2016</b>	<b>September 2015</b>	-
1	Cash Credit	Long term	12.00	[ICRA]B+ (Stable)	[ICRA]B+	[ICRA]B+	-

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>Instrument</b>	<b>Date of Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. Crore)</b>	<b>Current Rating and Outlook</b>
Cash Credit	-	-	-	12.00	[ICRA]B+ (Stable)

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